VZCZCXRO9543
RR RUEHBZ RUEHDU RUEHJO RUEHMR RUEHRN
DE RUEHTO #0958/01 2801805
ZNR UUUUU ZZH
R 061805Z OCT 08
FM AMEMBASSY MAPUTO
TO RUEHC/SECSTATE WASHDC 9424
INFO RUCNSAD/SOUTHERN AFRICAN DEVELOPMENT COMMUNITY
RUEHLO/AMEMBASSY LONDON 0249
RUEHRC/DEPT OF AGRICULTURE WASHDC
RUCPDOC/DEPT OF COMMERCE WASHDC

UNCLAS SECTION 01 OF 02 MAPUTO 000958

SENSITIVE
SIPDIS

E.O. 12958: N/A
TAGS: EAGR ETRD ENRG ECON EPET SENV
SUBJECT: SWEET DREAMS: MOZAMBIQUE'S SUGAR INDUSTRY GROWS

¶1. (SBU) SUMMARY: The Mozambican sugar industry is a significant employer and is expected to double production over the next three years, targeting duty-free access to the EU via the Everything but Arms (EBA) initiative. Ethanol production is under consideration, and may provide a complementary product to refineries and growers alike, as a means of hedging against future drops in worldwide sugar prices. The domestic sugar market is protected by high tariffs and will remain so until 2012, at which point Mozambique's sugar industry will face steep competition from neighboring South Africa, Swaziland, and Zimbabwe. The Port of Maputo Port continues to benefit from increased South African and Zimbabwean sugar exports via the Maputo Corridor. END SUMMARY.

OVERVIEW OF MOZAMBIQUE SUGAR

¶2. (U) Mozambique's sugar production continues to expand to meet export requirements, principally for the EU. Mozambique competes with neighboring producers South Africa, Swaziland, and Zimbabwe; producing an excellent grade of raw sugar through a 9 month growing season of April to December. Large-scale sugar production began again in 1999 following the cessation of the civil war in 1992. Currently the industry is controlled by a single-desk seller, Acucar Nacional, the national sugar board which controls the purchasing and export of the product and manages domestic supply ensuring that all surpluses are exported, while closely controlling the domestic sugar price.

--- ---------
INDUSTRY SUPPORTING RURAL EMPLOYMENT AND SMALL GROWERS
--- ---------

¶3. (U) There are three main multi-national companies involved in the Mozambican industry, and only four raw sugar-producing refineries in Mozambique (Maragra, Xinavane, Sena, and Mafambisse). The sugar industry is a significant rural employer, with a current work force of roughly 27,000. The industry is also actively supporting small cane growers who on average hold acreage of about 1/4 hectare and do not have access to traditional financing. As such, Mozambique's mills are providing financial support, fertilizer, and access to machinery, as well as providing expertise in crop planning. Supporting small growers has added spin-offs for local communities, with increases in small grower food production which contributes to rural development.

SUGAR PRODUCTION GROWING TO MEET EU DEMAND

¶4. (SBU) Last year, Mozambique produced 240,260 tons of raw sugar, and expects to produce nearly 270,000 tons in 2008. Fifty percent ($65 to 70 million dollars worth) is exported,

mostly to the EU. No Mozambican sugar was exported to the United States in 2007 due to pricing and transportation costs, which make Mozambican sugar uncompetitive in U.S. markets. The country does currently export to East Africa, Pakistan, and Indonesia; however, thanks to the liberalization of the EU markets, Acucar Director General Robert Dean told Econoff on October 2 that he believes the EU will become the sole market for Mozambican sugar exports in the near future.

¶5. (U) Because of tariff liberalization in the EU, the sugar industry expects to double production to 500,000 tons over the next three years, creating 3,000 new jobs. Mozambican sugar will begin entering the EU duty free in January 2009 via the "Everything but Arms" (EBA) Initiative, which allows duty free imports into the EU from Least Developed Countries. Despite recent drops in the price of sugar on the EU market and rising transportation costs, the EBA allows Mozambican sugar to be competitive, thanks to the elimination of duties. As a result of the EBA, the industry has carried out some $610 million in improvements, expanding both processing capacity and arable land under cane cultivation.

-- ------
INDUSTRY PUSHES FOR ETHANOL, SUPPORTS SMALL GROWERS
-- ------

¶6. (SBU) Backed by the GRM, which is interested both in employment generation and greater energy independence, Dean told Econoff that the sugar industry is planning to begin biofuel production, specifically in cane-based ethanol.

While profitability concerns still exist, ethanol production (which could take place in existing sugar refineries) could prove to be a useful hedge against future drops in the price of sugar on world markets. Currently there is no port-based infrastructure to handle potential ethanol exports, but GRM plans appear to be focused on using ethanol primarily in domestic markets.

-- -----
MOZAMBIQUE'S TARIFF REGIME AND SADC LIBERALIZATION
-- -----

¶7. (U) While the industry is increasingly more efficient, variable import taxes protect the Mozambican sugar industry from import-led competition--protection which will continue until 2012, despite SADC tariff liberalizations. Currently, if greater competition were introduced into the market, it is estimated that half of the refineries would close. After 2012, Mozambique expects competition from South African, Swazi, and potentially Zimbabwean sugar in the domestic market. Without additional protection from more efficiently-priced SADC competitors, or significant increases in competitiveness, Mozambican sugar could face a bleak post-2012 future.

-- ---------
MAPUTO PORT BENEFITING FROM S. AFRICAN AND SWAZI SUGAR
-- ---------

¶8. (SBU) Roughly 135,000 tons of Mozambican sugar flows through the Port of Maputo per year, exported in bulk. The port, and the Maputo Corridor which leads to the border with South Africa has also become a convenient export point for South African and Swazi refined sugar, accounting for 80,000 and 85,000 tons respectively of (non-bulk) bagged sugar from Maputo in 2008. The Port's bagged sugar operations employ in excess of 90 people in a new $3 million warehouse with a capacity of 27,000 tons. While theft at the Port used to be a major problem, increased security under the management of DP World means that average annual theft has dropped to only 1.4 tons per year. As SADC sugar production continues to take advantage of new access to the EU market, Maputo Port

will likely continue to benefit from the transit of southern Africa sugar exports.

-- -----
COMMENT: SHORT TERM EXPORT-DRIVEN SUCCESS POSSIBLE
-- -----

¶9. (SBU) Mozambique's sugar industry expects continued export-led growth thanks to the EU's EBA initiative in the short term. If Mozambique does not introduce greater efficiencies and increase its competitiveness however, it will likely see significant losses of domestic market share from SADC competitors after 2012, negatively effecting rural employment. Maputo Port however, should continue to profit from South African and Swazi sugar exports as the EU and other large markets liberalize tariff and non-tariff barriers. The viability of sugar-based ethanol production in Mozambique, a country with vast expanses of unused arable land, is theoretically possible; however, profitability is still in question. If large scale cane-based ethanol production becomes feasible, it may be a key to success for Mozambican sugar, rural employment, and the country's goal of energy independence.
Amani